BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL FOUR)

Docket No. RM2018-7

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(July 20, 2018)

The United States Postal Service hereby provides its responses to the above-

listed questions of Chairman's Information Request No. 1, issued July 13, 2018.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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July 20, 2018

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

1. The supporting workpapers indicate that the number of regulated and unregulated transactions comes from Treasury.[1] Please explain how Treasury determines the number of transactions, and whether each transaction is regulated or unregulated. In the response, please provide or describe all applicable formulas, methods, or procedures used to calculate the number of regulated and unregulated transactions.

RESPONSE:

When a card is swiped by a customer, a request is sent to the card processor for the Postal Service. Card processors work as intermediaries between the financial institution of the customer and the merchant (in this case, the Postal Service) to complete the transaction. The size of the assets of the financial institution of the card utilized determines whether its transactions are regulated as per the Durbin Amendment. The Federal Reserve publishes online lists of exempt and non-exempt issuers. Our card processor receives and records information about transactions, including information about the card issuer, regulated or exempt status, the transaction network utilized, and associated transaction fees.

The processor provides Treasury with a debit transaction report which includes information on the total number of transactions, transaction amounts, and transaction fees incurred by card network and transaction group (regulated or unregulated). The total number of regulated transactions is calculated as the sum of the regulated transactions by network. Similarly, the sum of unregulated (also called exempt)

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[1] Petition, Excel file "Prop.4.Debit.Card.Attachment.xlsx," tabs "Doc" and "Inputs."

transactions by network is the total number of unregulated transactions. These sums

are reported in the Excel workbook from this docket, tabs "Inputs", cells C31:C33.[2]

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[2] *Id.*

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2. In the Petition, the Postal Service states that to determine the relevant number of transactions in the transactions cost pool, "the total number of transactions would first be multiplied by the proportion of regulated transactions (65 percent in FY 2017), and that subset of regulated transactions is then multiplied by the approximate per transaction cost to calculate the transactions cost pool." Petition at 3-4. The Postal Service notes that the percentage of regulated transactions would be updated each year based on the most current proportions. *Id.* at 4 n.6.

Please explain how the Postal Service determines the percentage of regulated transactions in a fiscal year. In the response, please present the calculation of the FY 2017 percentage, including the formula for calculating this percentage, along with the sources for all inputs used in that formula.

RESPONSE:

The percentage of regulated transactions is calculated as the count of regulated transactions divided by the total transactions, both of which are provided using data from the Postal Service card processor. The regulated, exempt (nonregulated), and total number of transactions are shown below.

TRANSACTION GROUP	COUNT
REGULATED TRANSACTIONS	97,294,192
EXEMPT TRANSACTIONS	53,379,738
TOTAL TRANSACTIONS	150,673,930

PERCENT REGULATED	64.57

The percent regulated is applied to calculate the $21.3 M in the transactions cost pool as described in Proposal Four. In the supporting Excel workbook filed with the petition, this amount is located in sheet "Inputs", cell H17.

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3.   The Petition includes a table comparing the distribution of costs related to debit card transactions using the current methodology (as presented in the FY 2017 Annual Compliance Report) and the methodology in Proposal Four. Petition at 8. This table shows that under Proposal Four, "Other Costs" would increase by $1,020,267. *Id.*

   a.   Please confirm that "Other Costs" refers to institutional costs. If not confirmed, please explain the costs included in this category.

   b.   The supporting workpapers show that under Proposal Four, accrued costs (including "Other Costs") would be distributed based on the percentage of transaction revenue associated with postal products.[3] The FY 2017 Summary Description of Costs by Segments and Components states that costs related to debit and credit card transactions for postal products are fully volume variable, while costs associated with non-postal products are treated as institutional.[4]

      i.   Please confirm that the total increase in "Other Costs" under Proposal Four only includes costs associated with non-postal products.

      ii.   If confirmed, please explain how the Postal Service distinguishes between debit and credit card transactions associated with postal products versus non-postal products.

      iii.   If not confirmed, please explain why "Other Costs" would increase under Proposal Four.

RESPONSE:

a.   Confirmed.

b.   i.   Confirmed.

   ii. Debit and credit transactions are distinguished at the channel level where the

cards are accepted by the Postal Service. Retail (POS) and vending (APC/SSK)

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[3] Petition, Excel file "Prop.4.Debit.Card.Attachment.xlsx," tab "Debit," cell D60.

[4] Rule 39 C.F.R. Section 3050.60(f) Report for FY 2017 (Summary Descriptions), July 2, 2018, file "CS13-17.docx," at 13-9.

channels accept both credit and debit transactions while other channels, for example internet channels, perform only credit transactions. There is no channel that conducts only debit transactions, however, there are some products, such as Money Orders, which cannot be purchased using a credit card. At the retail channel, data reporting provides payment type information on all products sold, therefore credit and debit transaction amounts and counts are readily available and easily distinguishable. In contrast, the vending channel Retail Data Mart (RDM) data does not distinguish card type. However, a summary of the number of credit and debit vending transaction counts and amounts is available from our card processor. The proportions of credit versus debit from this file is applied to the total card transaction counts and amounts respectively in RDM to distinguish card type. The figures required to calculate these proportions are provided in the supporting Excel file filed in this docket, on the sheet "Inputs" (cells D16:D18 and G16:G18). In all channels, product names are present in the data so categorizing them as postal or non-postal is solely a matter of applying a key to classify, using the product name or product type.

Overall, the proposed methodology results in an increase in 'Other' costs because the category tends to have a lower unit revenue than average. This can be seen in row 60 of the Debit tab in the Excel file attached to the Petition, in which the category represent 6.6 percent of tenders, yet only 1.8 percent of revenue. And as explained on page 6 of the initial Proposal, the methodology applied in the FY2017 ACR underdistributed expenses to products with relatively smaller average transaction amounts. Since the

proposed methodology now correctly attempts to account for per transaction costs

rather than revenue alone, these products are assigned more debit card fees than they

were previously.

      iii.   Not applicable.